

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-022
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-022

24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	10



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Loretta Toedo, President
Board of Directors
24-A DAA, The Kings Fair
801 South 10th Avenue
Hanford, California 93230

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 24-A District Agricultural Association (DAA), the Kings Fair, Hanford, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 24-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As of December 31, 2006, detailed property records for improvements made to the fairgrounds and related raceway were not available for audit. We identified the omission of capitalizing a material amount of improvements made by the raceway contractor to the fairgrounds. Since the contractor and the Fair have since separated, this information was not available to audit. Due to this material omission, we were unable to satisfy ourselves about the amount at which Account #192, Buildings and Improvements - Net, is stated (at \$868,358) in the accompanying statements of financial condition at December 31, 2006.

In our opinion, except for effects on the 2006 financial statements of such adjustments, if any, as might have been determined to be necessary to Account #192, Buildings and Improvements, had detailed supporting documentation been available, the financial statements referred to in the first paragraph present fairly, in all material respects, the

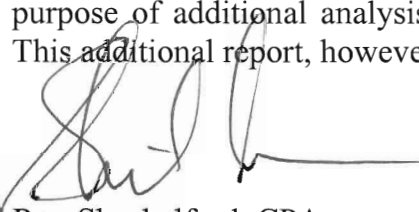


financial position of the 24-A District Agricultural Association, The Kings Fair, as of December 31, 2006, and the results of its operations and changes in net resources, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2007 financial statements referred to in the first paragraph present fairly, in conformity with accounting principles generally accepted in the United States of America the financial position of the 24-A District Agricultural Association, the Kings Fair, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 24-A DAA, the Kings Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-022, on the 24-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 24-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.


For Ron Shackelford, CPA
Chief, Audit Office

November 20, 2008

**24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 121	\$ 156,177	\$ 77,854
Accounts Receivable,	131	20,912	5,034
Deferred Charges	143	3,142	2,204
Land	191	45,707	45,707
Buildings and Improvements, Net	192	1,016,721	868,358
Equipment, Net	193	6,066	11,805
TOTAL ASSETS		<u>1,248,726</u>	<u>1,010,962</u>
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable	212	15,702	35,068
Taxes Payable	221 - 226	404	305
Deferred Income	228	665	2,065
Guaranteed Deposits	241	6,200	6,600
Compensated Absences Liability (Note 5)	245	21,135	22,708
Total Liabilities and Other Credits		<u>44,107</u>	<u>66,746</u>
Net Resources			
Reserve for Junior Livestock Auction	251	10,747	11,954
Net Resources - Operations	291	125,377	6,392
Net Resources - Capital Assets less Related Debt	291.1	1,068,495	925,870
Total Net Resources Available		<u>1,204,619</u>	<u>944,216</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,248,726</u>	<u>\$ 1,010,962</u>

**24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Donated Assets	317	308,050	-
Capital Projects Reimbursement Fund	319	-	26,023
Other Funds	340	2,000	29,977
Admissions	410	132,226	121,297
Commercial Space	415	36,975	43,147
Carnival	421	91,600	88,400
Food Concessions	422	37,174	35,459
Exhibits	430	18,277	15,595
Attractions - Fairtime	460	13,455	10,954
Miscellaneous Fair	470	86,115	73,429
Miscellaneous Non-Fair	471	9,710	-
JLA - Revenue	476	18,098	19,641
Interim Revenue	480	186,609	160,050
Prior Year Adjustment	490	443	-
Total Revenue		<u>1,090,732</u>	<u>773,972</u>
EXPENSES			
Administration	500	177,494	147,789
Maintenance and Operations	520	246,399	266,838
Publicity	540	43,036	42,042
Attendance	560	32,580	31,976
Miscellaneous Fair & Non-Fair	570	30,833	29,564
JLA - Expense	576	19,306	14,583
Premiums	580	5,936	5,916
Exhibits	630	26,995	29,343
Attractions - Fairtime	660	105,514	94,511
Prior Year Adjustments	800	45,272	(1,662)
Cash Over/Short from Ticket Sales	850	(73)	118
Depreciation	900	78,572	58,174
Other Operating Expense	930	18,467	29,977
Total Expenses		<u>830,330</u>	<u>749,169</u>
RESOURCES			
Net Change - Income / (Loss)		260,403	24,803
Resources Available, January 1		944,216	919,413
Resources Available, December 31		<u>\$ 1,204,619</u>	<u>\$ 944,216</u>

**24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenues Over Expenses (Expenses Over Revenue)	\$ 260,403	\$ 24,803
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(15,878)	952
(Increase) Decrease in Deferred Charges	(938)	62
Increase (Decrease) in Deferred Income	(1,400)	(2,136)
Increase (Decrease) in Taxes Payable	100	(87)
Increase (Decrease) in Accounts Payable	(19,366)	(31,232)
Increase (Decrease) in Compensated Absence Liability	(1,573)	492
Increase (Decrease) in Guaranteed Deposits	(400)	(2,800)
Total Adjustments	<u>(39,455)</u>	<u>(34,750)</u>
Net Cash Provided (Used) by Operating Activities	<u>220,948</u>	<u>(9,947)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	-	7,669
(Increase) Decrease in Buildings and Improvements	(148,363)	14,787
(Increase) Decrease in Equipment	<u>5,739</u>	<u>9,694</u>
Net Cash Provided (Used) by Investing Activities	<u>(142,624)</u>	<u>32,151</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	78,323	22,204
Cash at Beginning of Year	77,854	55,650
CASH AT END OF YEAR	<u><u>\$ 156,177</u></u>	<u><u>\$ 77,854</u></u>

**24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 24-A District Agricultural Association (DAA) was formed in 1937, for the purpose of sponsoring, managing, and conducting the Kings Fair each year in Hanford, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 940	\$ 1,300
Cash in Bank - Operating	145,359	65,773
Cash in Bank - Premium	140	00
Cash in Bank – JLA	<u>9,738</u>	<u>10,780</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 156,177</u></u>	 <u><u>\$ 77,854</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 50,589	\$ 34,546
Accounts Receivable - JLA	1,508	1,673
Allowance for Doubtful Accounts	<u>31,185</u>	<u>31,185</u>
 Accounts Receivable - Net	 <u><u>\$ 20,912</u></u>	 <u><u>\$ 5,034</u></u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$1,989,027	\$1,790,854
Less: Accumulated Depreciation	<u>(972,306)</u>	<u>(922,496)</u>
Building & Improvements - Net	<u><u>\$1,016,721</u></u>	<u><u>\$ 868,358</u></u>

Equipment	\$ 271,848	\$ 257,185
Less: Accumulated Depreciation	(265,782)	(245,380)
Equipment - Net	<u>\$ 6,066</u>	<u>\$ 11,805</u>

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 24-A DAA Board of Directors
1	Chief Executive Officer, 24-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA

MANAGEMENT REPORT #08-022

YEAR ENDED DECEMBER 31, 2007

24-A DISTRICT AGRICULTURAL ASSOCIATION
THE KINGS FAIR
HANFORD, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-022

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Accounting for Fixed Assets	3
Accounts Receivable and Allowance for Doubtful Accounts.....	4
Interim Revenue	5
NON-REPORTABLE CONDITIONS	6
Independent Contractors	6
Personnel	6
Cash Receipts	6
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE.....	8
CDFA EVALUATION OF RESPONSE.....	10
DISPOSITION OF AUDIT RESULTS.....	11
REPORT DISTRIBUTION	12



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Loretta Toledo, President
Board of Directors
24-A DAA, the Kings Fair
801 South 10th Avenue
Hanford, California 93230

In planning and performing our audit of the financial statements of the 24-A District Agricultural Association (DAA), The Kings Fair, Hanford, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the The Kings Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 24-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 24-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 24-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 24-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 24-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 24-A DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, accounts receivable and allowance for doubtful account, and interim revenue. We have provided six recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 24-A DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

Our office noted that in 2007 the Fair made a concentrated effort to update its fixed asset accounting records for Account #192, Buildings and Improvements, 192.1, Accumulated Depreciation-Buildings & Improvements, and 193, Equipment. However, a few additional steps need to be taken in order to be in full compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 and the Division of Fairs and Expositions (F&E) Fixed Asset Policy and Procedure Manual.

- a. Our office noted approximately \$80,000 in capital improvements made by the former raceway promoter that were not recorded in the Fair's general ledger. In the past, the promoter provided the Fair Board a detailed list of capital improvements made to the raceway from 1997 – 2001. However, the Fair did not capitalize and depreciate any of these improvements in its accounting records, nor did the Fair have invoices or receipts to fully substantiate the cost of these assets. Our office reviewed the list and noted the capital improvements complied with the Department of Finance (DOF) asset capitalization criteria for capitalizing improvements with a cost of at least \$5,000 and a useful life of one or more years. The Fair's Board of Directors documented these capital improvements as part of the determination for allowing the raceway promoter to extend the rental agreement in October 2001 for use of the Fair's raceway facilities until December 31, 2006. As of the audit fieldwork date, these amounts have not been capitalized in the Fair's accounting records.
- b. Additionally, in the past, the Fair recorded a lump-sum item of \$24,452 in Account #192, Buildings and Improvements, without supporting documentation detailing the capital asset, the date acquired, and the historical cost or an adequate estimation of the actual cost when the asset was placed into service. In 2008, the Fair obtained an estimate for the improvements made by the former raceway promoter. The professional estimate indicated that the improvements were valued at \$42,145. As of the audit fieldwork date, the Fair has not removed the lump-sum item from the accounting records and replaced the costs with the estimate received in 2008.
- c. The Fair did not capitalize \$14,883 worth of equipment in Account #193, Equipment, that was placed into service in 1995. Although the equipment is fully depreciated, it continues to be used by the Fair. As a result, the Fair should treat the item as an accountable piece of property within the accounting records until it is no longer used and properly disposed. This is prior year audit finding.

Recommendations

1. *The Fair should record the additional and necessary journal entries that ensure Account 192, Buildings and Improvements, and Account #193 Equipment, are fairly stated in the general ledger and the property ledger.*

2. *In future, the Fair should comply with generally accepted accounting principles (GAAP) and the DOF capitalization criteria by ensuring all racetrack improvements that have a value of at least \$5,000 and a useful life greater than one year are capitalized within their general ledger and property ledger the year the improvements are made or the new asset is placed in service.*

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Our office noted the Fair did not follow existing State rules by properly applying for and obtaining approval from the State Controllers Office (SCO) prior to eliminating the \$24,452 in accounts receivable related to racing revenues owed by the former raceway promoter during 2005. In 2005, the Fair improperly accepted assets of an undetermined value from the raceway promoter in exchange for discharging this amount; however, in 2008, the Fair determined the value for the assets. Per Proposal, the value of these assets is more than \$24,452. The Fair capitalized the assets as a lump-sum in Account #192, Buildings and Improvements, and removed the receivable from the general ledger. Per SAM 8776.6, the Fair is required to complete a STD. 27, Discharge from Accountability, and forward it to the SCO for all accounts receivable deemed uncollectible that exceed \$250.

In addition, the Fair did not recognize all doubtful accounts receivable and, as a result, overstated its total assets at year-end. The Fair did not establish an allowance for doubtful accounts at year-end for approximately \$4,124 of accounts receivable that were deemed uncollectible. According to the APM, an allowance for doubtful accounts should be recognized in the accounting records when an account is deemed uncollectible. This process presents the Fair's assets more accurately on the year-end financial reports.

Furthermore, our office noted the Fair has an Allowance for Doubtful Accounts that has carried uncollectible accounts since 1996. Our office noted that \$10,358 of the allowance account represents uncollectible accounts receivable generated by fair operations from 1996 to 2007 and \$499 of uncollectible accounts receivable from 2001 generated by Junior Livestock Auction activities. Additionally, the \$24,452 uncollectible accounts receivable for the motorized racing revenue will be required to remain on the books until such time as the SCO might approve the discharge from accountability. In total, the Fair has approximately \$35,309 in uncollectible receivables that it should submit to the SCO for a discharge of accountability.

Recommendations

3. *The Fair should perform a journal entry to return the \$24,452 accounts receivable and allowance for doubtful account to the books until such time as the SCO authorizes it to be written off.*
4. *Prior to closing the accounting period at year-end, the Fair should evaluate each outstanding account receivable for collectability. Any receivable that is considered uncollectible should be recorded in Account #131, Allowance for Doubtful Accounts. The Fair should ensure it continues to monitor all outstanding account balances on a timely basis to evaluate their collectability.*

5. *The Fair should follow the guidelines of SAM 8776.6 and complete and forward form STD. 27, Discharge from Accountability, to the SCO in order to begin the process of requesting authorization to remove the \$35,309 of uncollectible accounts from the accounting records. All correspondence between the Fair and the raceway promoter should be sent to the SCO as support and justification for writing off the uncollectable accounts receivable.*

INTERIM REVENUE

The Fair did not comply with the Fairs and Expositions (F&E) Contract Manual for DAAs, which requires contracts over \$75,000 to be submitted to F&E for approval prior to the start of the contract. The August 2006, multi-year rental agreement (#06-72) with a motorized racing contractor that extends through December 2010 exceeds the \$75,000 submission requirement and has a five year option for renewal. Approval from F&E with regards to hazard insurance, indemnification language, and propriety is required for all contracts in excess of \$75,000. This is prior year audit finding.

Recommendation

6. *The Fair should comply with the Contract Manual for DAAs and submit rental agreement #06-72 to F&E for multi-year and hazardous activities approval. In the future, all multi-year contracts and contracts that exceed \$75,000 should be sent to F&E for approval prior to the start of the contract.*

NON-REPORTABLE CONDITIONS

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the required Employment Development Department (EDD) DE 542 form for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542, which requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

PERSONNEL

The Fair did not complete the required EDD DE 34 form for newly hired employees. The Fair is required to report to EDD within 20 calendar days of the employee's start-of-work date by submitting Form DE 34. According to EDD, every newly hired or rehired employee must be reported to the California New Employee Registry. This includes employees of all ages, those who work less than a full day, part-time and seasonal employees, and those who discontinue their employment prior to the 20th day of work.

Recommendation

The Fair should comply with EDD and report to EDD all newly hired employees within 20 calendar days of the employee's first day of work.

CASH RECEIPTS

The Fair did not always deposit cash receipts in a timely manner. According to the APM § I, 2.331, timely deposits of cash receipts are essential to mitigate the possibility of a loss of funds by the Fair. Moreover, fairs are required to make bank deposits the next business day when currency exceeds \$500 or when cash in the aggregate exceeds \$5,000. Furthermore, no collection should remain undeposited for more than fifteen business days. Our office noted the Fair allowed some deposits to exceed the threshold without making a bank deposit the next business day.

Management Report #08-022

Hanford, California

The Fair assigned one employee to deposit coin or currency exceeding \$3,000. Per SAM, Ch.8032.4, whenever coin and currency to be deposited exceeds \$3,000, two agency employees should be assigned to deliver the deposit jointly or two or more deposits may be made to reduce the cash transported at one time. A single employee should not transport more than \$3,000 in coin and currency at one time.

Recommendations

The Fair should ensure it deposits cash receipts within the timeframes specified in the APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.

The Fair should follow all the requirements of SAM, Section 8032.4 to further improve the safeguarding of cash.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



February 5, 2009

AUDIT RESPONSE

24-A DAA – Kings Fair

Accounting For Fixed Assets:

I have received Journal Entries for this reportable and will comply with the suggestions.


Accounts Receivable and Allowance Doubtful:

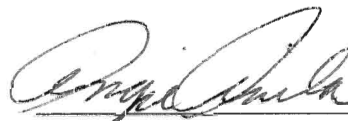
The fair has completed a Journal Entry in 2008 to take care of the Doubtful Acct. in the amount of \$24,252.

The fair will be conducting the discharge of receivables as soon as possible.

Interim Revenue Contract:

The race contract was mailed to Fairs & Expositions in May 2008 and received it back on February 3, 2009 with the F & E stamp. All future contracts will be approved by F & E.

 2-9-09
Loretta Toledo, President Date

 2/9/09
Angie Avila, CEO Date

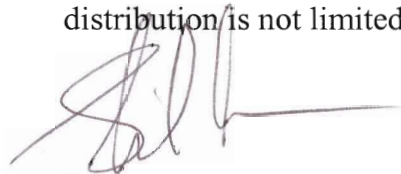
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 24-A DAA, The Kings Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between November 3, 2008 and November 20, 2008. My staff met with management on November 20, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'Ron Shackelford', is written over the printed name.

For Ron Shackelford, CPA
Chief, Audit Office

November 20, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 24-A DAA Board of Directors
1	Chief Executive Officer, 24-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office